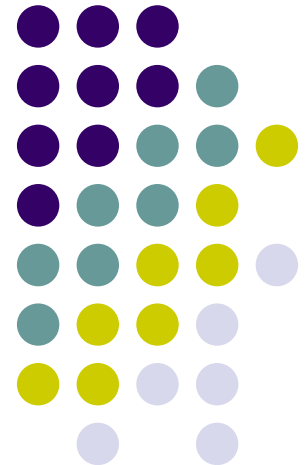
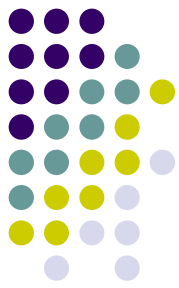


Logistics Providers and Production Networks: A Case Study of DHL Exel Supply Chain in the Automotive Sector



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Like the financial services industriesthe distribution industries are circulation activities and, as such, are absolutely central to the operation of all economic activities. Their basic function is to act as intermediaries, connecting together all stages of the production chain in fast, flexible and reliable ways to overcome the friction of geographical distance. (Dicken, 2004: 504)

This presentation will:



- Introduce third party logistics providers [3PLs], the automotive logistics market and DHL Exel Supply Chain
- Inbound logistics contracts
- Inhouse logistics contracts
- Logistics and inter-firm relationships in production networks
- 3PLs: Issues of control and governance in production networks

Third Party Logistics Providers



- Asset-based logistics providers
- Network-based logistics providers
- Skill-based logistics providers

(Dicken, 2004, 486)

Automotive Logistics Market: Example Germany



- The Automotive Logistics market includes all expenditure associated with the transportation, distribution and management of passenger vehicles. This total expenditure includes costs incurred in-house as well as those which are outsourced to an external party. The main segments are the inbound parts and components, finished passenger vehicles and the aftermarket.
- In 2003, Germany accounted for 30.7% of the automotive logistics market in Europe
- In 2003, the German market was valued at \$8 Billion
- The forecast for market value growth to 2008 was only 1.2%
- 54.5% of the market was outsourced
- The aftermarket sector accounted for 60.3% of market value
- Key logistics providers are DHL Exel Supply Chain, CEVA Logistics, Schenker Stinnes, Fiege and Dachser

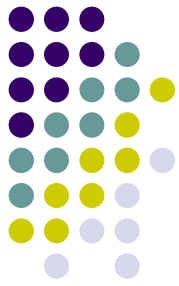
Datamonitor Report, May 2004



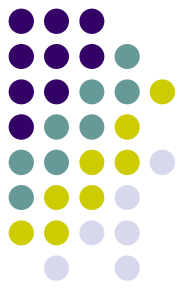
DHL Exel Supply Chain

- Deutsche Post World Net acquired Exel in December 2005
- DHL Exel Supply Chain is now the world's largest provider of contract logistics with an estimated global market share of 5.8% in 2005
- It is now part of DHL's Logistics Division which also includes DHL Global Forwarding and DHL Freight
- DHL Logistics Division employed 162, 706 people in 2006
- DHL Exel Supply Chain operates in 67 countries but has the capacity to provide services across 220 countries and territories

DHL Exel Supply Chain Services



- Supply Chain Partner
- Lead Logistics Provider
- International supply chain management
- Supply chain consultancy
- Planning and optimisation
- In-plant logistics
- Raw materials warehousing
- Raw materials transportation
- Inbound to manufacturing
- Procurement
- Value-added services
- Contract manufacturing
- Finished goods warehousing
- Finished goods distribution
- Delivery and installation
- Service logistics
- Network solutions
- In-store logistics
- Environmental compliance
- Reverse logistics



‘I think from a global perspective we’ve got reach that is unbelievable. I’m starting to see more and more how that reach matters to customers. So for example, I’ve got one customerinvolved in a very large and important project on the other side of the world. I informed that customer that we have drawn resources out of the UK, Spain, Mexico and Brazil to support an individual operation, and that’s what you get by using a provider that’s got scale and capabilities round the worldwe can draw from a lot of places and we do.’

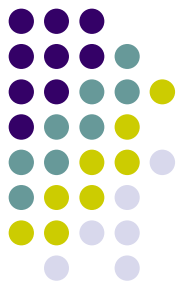
(DHL Exel Supply Chain Interview 15, USA, June 2006)



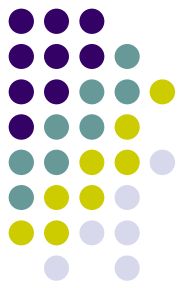
Inbound Contract 1

- Ford of Europe Lead Logistics Provider
- The LLP ‘serves as the client’s primary supply chain management provider, defining processes and managing the provision and integration of logistics services through its own organisation and those of [other] subcontractors’ (CSCMP, 2006: 85)

Ford of Europe LLP



- Cologne, Germany
- Covers inbound logistics into all Ford European sites
- Involves communication and physical flows with more than 1500 European-based 'tier one' suppliers
- Co-ordinates activities with 25 different transport carriers and distribution centre providers
- Contract covers network planning, cost management, transportation network, empty container management and business performance management.
- Physical assets provided by Ford of Europe
- Logistics activities predominately performed from Ford's Cologne production facility



‘[T]he supplier and the carrier are working in line with our network design which has been approved by all of the Ford stakeholders. The supplier [has] to release the parts on time in relationship to that PFEP [plan for every part] and the carrier has an obligation to deliver these component parts to the plant in line with the time window let’s just take Barcelona to Cologne...we expect that to be delivered in 3 days within 30 minute tolerance.’ (DHL Exel Supply Chain Interview 9, May 2006)

Inbound Contract 2



- International Import/Export
- Michigan, USA
- Contract provides warehousing and freight-forwarding services for the General Motors [GM] Intercontinental operations programme [Americas, Europe, Asia Pacific]
- DHL Exel Supply Chain has direct access GM's inventory systems
- Physical assets provided by DHL Exel Supply Chain
- Logistics activities are located according to transportation infrastructure: highways, air, rail and container port proximities
- Information and physical flows involve a complex network of actors



‘[CEVA] will receive release information from GM, it filters through Vector and is then fed to [CEVA]. [CEVA] takes that information, filters it ..they look at on hand inventory reports that we provide them, they look at what’s in transit and what may be at the plant and determine what release volume or quantity to give to particular suppliers. But then they also, once they’ve got that information, they also determine what are the daily orders that need to go to the various plants. They send us a report that’s automatically imported into our warehouse management system and it ..generates the daily pick orders....we’re picking orders for tomorrow’s 6 o’clock truck, which is a consolidated shipment that we send to a GM distribution centre that they then marry up with additional components [and] take it elsewhere.’

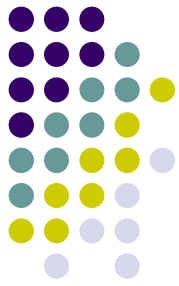
(DHL Exel Supply Chain Interview 2, April 2006)



Inhouse Contract

- Birmingham, UK
- Contract provides all inhouse logistics operations necessary through to line feed plus the inbound logistics for the local suppliers network for Jaguar
- Physical assets provided by Jaguar
- DHL Exel Supply Chain employees work inside the Jaguar production facility alongside Jaguar employees

Logistics contracts require the establishment and maintenance of relationships with multiple actors:



- clients,
- suppliers,
- client's customer base,
- transport carriers,
- other logistics providers,
- and external agencies [e.g. customs]

3PL and inter-firm relationships in automotive production networks: the client



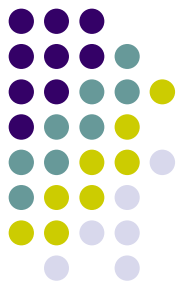
- The most clearly defined relationship is that between the 3PL and the automotive client
- As contracts evolve over time, there is increasing intermeshing between the logistics provider and its client in particular contract formations
- In some contracts, the 3PL has been encouraged to adopt the client's identity or adopt its corporate culture
- In some contracts, DHL ESC executives are inserted into the client's senior management structures
- Closer integration between DHL ESC and its automotive clients include day-to-day contact between those at the operational level and interactions between tactical and strategic management levels.
- Internal communication problems within the client's own organisation can occur when logistics is outsourced to a 3PL; this is caused by a mixture of miscommunication, misunderstanding and the failure to anticipate the demands of the contract in advance

3PL and inter-firm relationships in automotive production networks: others



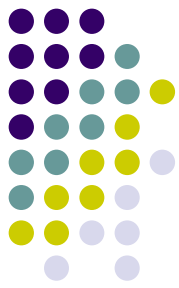
- On both inbound and inhouse logistics contracts, DHL ESC had no discernable relationship with their clients' customers
- In the automotive sector, different forms of relationships with 'tier one' suppliers were identified: as clients, a shared client within a particular production network, as a broker between tier one suppliers
- Two distinct relationships with 'tier twos' and further back where also identified: as a supplier compliance trainer or as DHL ESC's client base
- Loose and tight relationships were identified with other transport carriers and logistics providers depending on whether DHL ESC or the client procured these logistics services

3PLs: Issues of control and governance in production networks 1



- The research confirms that logistics contracts are predominately client-driven but that DHL ESC simultaneously seeks to widen and deepen its activities beyond the current scope of contracts
- Client procurement activities seek to reduce logistics costs within production networks.
- Simultaneously clients outsource increasingly levels of supplier and logistics failure risk management to its subcontracted logistics providers
- There is variability in control and governance over other logistics actors depending on whether the procurer is the client or its 3PL

3PLs: Issues of control and governance in production networks 2



- The research suggests that automotive producers are ‘subcontracting’ some aspects of governance to 3PLs in certain contract types
- There is evidence that DHL ESC advises and works with certain automotive producers as they re-configure their production networks
- Outsourcing compliance training to 3PLs disperses the exercise of power beyond the automotive producer itself
- Size and scale enables DHL ESC to say no when risk is unacceptable
- Size, scale and market share is enabling DHL ESC to persuade clients to shift towards single global logistics contracts and to explore strategies which bring competitors together in single but co-joined logistics contracts.